

**FEDERAL HOME LOAN BANK
OF PITTSBURGH**

**COMMUNITY LENDING PLAN
2004**

Approved: January 16, 2004

I. BACKGROUND / RATIONALE

The Federal Home Loan Bank of Pittsburgh (Bank) is pleased to provide its Year 2004 Community Lending Plan (hereinafter "Plan"). The Plan describes the Bank's efforts to assist its members in reaching their housing and economic development goals for the communities they serve. Within this Plan, we provide a summary of the unmet credit needs and market opportunities identified by the Bank for its district, which includes Delaware, Pennsylvania and West Virginia. These findings were derived from a variety of sources, including meetings with members and community stakeholders and research conducted during the preparation of the Bank's 2003-05 Strategic Plan.

On December 28, 1998, the Federal Housing Finance Board (FHFB) passed the Community Investment Cash Advance (CICA) regulation, affecting each of the twelve Federal Home Loan Banks. Under CICA, each Home Loan Bank is required to complete an initial assessment of the credit needs and market opportunities for community lending in its district. The regulation also required each Bank to develop an annual Community Lending Plan on or before January 31st. The Plan must be approved by the Bank's Board of Directors and submitted to the FHFB. While encouraging the Bank to develop new programs and initiatives, the regulation ultimately promotes renewed participation of member financial institutions in the housing and economic development of their communities. Requirements of the Plan are provided below:

A. Development of the plan requires that each Bank:

- ◆ Conduct market research in the Bank's district.
- ◆ Describe how the Bank will address the identified unmet credit needs and market opportunities in the Bank's district for community lending.
- ◆ Consult with its Affordable Housing Advisory Council, member institutions, housing associates and public and private economic development organizations in the district in developing and implementing its Plan.
- ◆ Establish quantitative community lending performance goals.

B. Each Bank must provide its member institutions with an annual notice containing:

- ◆ The identification of CICA programs and other Bank activities that may provide opportunities for a member to meet the community support requirements and to engage in community lending.
- ◆ Summaries of affordable community lending and housing activities undertaken by member institutions, housing associates, nonprofit housing developers, community groups, or other entities in the Bank's district, that may provide opportunities for a member to meet the community support requirements and to engage in community lending.

In response to the requirements set forth within the CICA regulation, the Federal Home Loan Bank of Pittsburgh implemented the following initiatives:

1. **Market Research** – The Bank's 2003-05 Strategic Plan included a detailed analysis of market conditions and credit gaps. In 2002, the Bank also completed a series of product workshops. These workshops augmented an analysis of credit needs and market opportunities conducted as part of the Strategic Plan. The Bank prepared two additional reports in 2002; 1. Comprehensive Neighborhood Development Strategy and 2. A Business Plan for community lending and investing. In 2003, the Bank continued research on general community development topics as well as research and focus group discussions on minority homeownership.
2. **Action Plan** – In this Plan, the Bank provides an action strategy describing its intentions to address the credit needs and market opportunities identified during the market research.
3. **Consultations with Bank Stakeholders** – In the development of this Plan and during the preparation of the Strategic Plan, CND Strategy and Business Plan, the Bank consulted with the following organizations:
 - ◆ Affordable Housing Advisory Council (AHAC)
 - ◆ Member financial institutions and housing associates
 - ◆ Public and private economic development organizations
4. **Performance Goals** – In this Plan, the Bank has established quantitative community lending performance goals.

II. CREDIT NEEDS AND MARKET OPPORTUNITIES SUMMARY

A. MARKET RESEARCH PROCESS

The Bank will annually conduct research in the Bank's district to identify opportunities for stockholders to increase the availability of affordable housing finance, community development finance, and financial and credit services in underserved neighborhoods and communities. In conducting research and identifying opportunities, the Bank will consult with stockholders, housing associates, the Advisory Council and public and private housing and economic development organizations within the district.

Market research was conducted in 2003 through the use of both primary and secondary sources. Primary sources include interviews, surveys and direct observations. Secondary sources involve reviewing research and analysis prepared by other entities.

The FHLB of Pittsburgh conducted market research to identify potential credit needs and market opportunities. The primary source of the market research was conducted during the preparation of the Bank's 2003-05 Strategic Plan. The objectives of this research included:

- Determining the community lending gaps within the 3rd District;
- Identifying the District's most critical credit needs;
- Evaluating opportunities to target the Bank's financial and technical resources, within the Bank's Key Mission Principles¹, to assist member financial institutions to address identified credit gaps.

The research included an examination of the credit needs within the Bank's District through the following process:

- Analysis of the CICA regulation and the implications of the Community Reinvestment Act on community lending;
- Evaluation of the Bank's existing tools for community and economic development;
- Review of relevant existing reports and studies, including statewide consolidated plans;
- Outreach efforts to key economic development stakeholders including:
 - Member financial institutions
 - Public/private economic development organizations
 - Community financial intermediaries and technical assistance organizations

¹ Key Mission Principles:

- *The Bank should not compete with members.*
- *Housing is still the principal focus of the FHLB.*
- *The Bank should focus on support of community banks.*
- *The Bank has a special mission to facilitate projects that are "bankable" but need extra assistance in technical or financial engineering.*

- The Bank's Board of Directors and Affordable Housing Advisory Council

The report draws on all of these resources to provide an understanding of the district's credit needs and market opportunities.

B. SUMMARY OF CREDIT NEEDS AND MARKET OPPORTUNITIES

Excerpt from the Bank's 2003-05 Strategic Plan:

Regionally, the states of Delaware, Pennsylvania and West Virginia, still dominated by old-line heavy manufacturing industries, will lag the slow recovery in the national economy. Growth will move forward to the extent that these states transition themselves into growth-oriented industries. Delaware's favorable tax environment for credit card and financial services industries and general low business cost structure will undergird the state's economic performance through the forecast period. The state will continue as an above-average performer relative to the Northeast region as a whole. Employment growth should be above the national average.

Any upside in Pennsylvania's growth prospects lies in growth of its service industries, such as professional services, business support services and computer-related endeavors, high-technology development and the ability to build upon the state's higher education system. As facilities to house these entities are needed, commercial construction activities should be bolstered. Biotechnology and robotics development will increase diversification.

West Virginia's economy will remain stagnant. Demographic trends are poor as the labor force shrinks through outmigration. Declining mining and steel industries may gain sporadic relief from external factors, such as the imposition of higher tariffs on imported steel or softer environmental standards, but these palliatives will not prevent the inevitable. The state's best hope for the future lies in business center development (e.g., business call centers), expanded travel and tourism initiatives and development activities that exploit the state's proximity to the major markets of Washington, D.C. and the mid-Atlantic region.

Housing Markets

Although the economy has severely weakened since September 11th, the U.S. housing market has remained stable. Single-family housing starts and new home sales have been relatively flat year over the year through June 30, 2002. Sales and starts are expected to remain flat over the horizon to 2005. Nationally, home prices increased almost 9% in 2000, but only at 3% in this Bank's region. The home price appreciation rate is projected to stabilize in the next three years. National homeownership rates were at 67.5% and are expected to approach 70% by 2010. Caucasian homeownership rates were about 73.8% with African-Americans at 47.2% and Hispanics at 46.3%. By 2010, Hispanics are projected to make the largest gain in homeownership.

In this Bank region the major demographic trends that affect housing are the slowing growth in population, the age migration of the population to the near elderly and elderly, the percentage of cost-burdened households and the age of the housing stock. Over 65% of the homes are over 30 years old. Over 40% are over 50 years old in the 3rd District. In this Bank region there will be a need for affordable multi-family housing over the planning horizon and beyond, especially for the elderly who are changing their lifestyle to more apartment-like living. Also, the need for programs that focus on rehabilitating existing housing stock will be essential.

The research identified credit needs and market opportunities for community lending. These were as follows:

- ◆ The Bank should seek to address the critical housing needs in its district:
 - Special services for the frail elderly.
 - Relief for severely cost-burdened, especially rental housing. Approximately 382,000 households in the Bank's district are considered cost burdened (earning less than 50% of median and paying more than 50% of income for housing.) Two-thirds of these households are renters.
 - Focus on homeownership for minorities and in urban areas.
 - Rehab of old housing stock.
- ◆ Oftentimes community banks do not have the resources and/or capacity to capitalize on community lending and investment opportunities. The Bank could offer new products and/or services to assist member banks to more fully participate in community development.
- ◆ Communities do not approach revitalization in a comprehensive manner. Comprehensive Neighborhood Development (CND) is either not done or is inadequate. Leadership training and capacity-building are critical needs relative to promoting CND.
- ◆ In many non-profit organizations there continued to be a "brain drain" caused by the loss of skilled, experienced personnel to private sector jobs in other states or regions. This creates the need to continually train new personnel and develop renewed relationships with funders (like the Bank) and government agencies. Throughout the district (particularly in West Virginia and in rural areas), there is a lack of experienced development organizations who fully understand the pre-requisites to become a competitive applicant for Bank, HUD and other national/regional funding sources.
- ◆ Funding for predevelopment is limited.
- ◆ The lack of modern sewage, water, roads and other infrastructure necessities is still a significant problem in many rural communities. In most cases, the problem is better defined as having very old and underdeveloped systems that can no longer handle the needs of more modern communities.
- ◆ Funding programs locally, statewide and nationally do not complement each other in their targeted goals and application process. This creates a zero-sum situation where developers must often choose to mold a project to meet the needs of one funding source, at the expense of meeting the preferences for a second (although needed) funding source. For this reason, many projects are not fully funded and are therefore never implemented.
- ◆ Small businesses are clearly the major provider of employment opportunities within the district. Assistance for start-up and expansion of small businesses is a significant need within the district.
- ◆ There is a clear need to address the lack of available credit for firms located within low-income areas and for minority-owned and women-owned firms regardless of their locations.
- ◆ There are certain transactions that local banks cannot fund. Local nonprofits, Small Business Investment Companies (SBICs) and Community Development Financial

Institutions (CDFIs) could serve as conduits for financing of small businesses without sacrificing the importance of proper credit worthiness analysis.

- ◆ Rural businesses show disparities in available credit sources and a lack of local organizations to serve as financing conduits and technical assistance providers.
- ◆ The need for equity capital, collateral enhancements or lower interest rates are the most common barriers to small businesses.
- ◆ The Bank's Community Investment Programs should be continually enhanced to streamline processing.
- ◆ Economic development programs should be linked to technical assistance through entities such as Service Corps of Retired Executives (SCORE) or Small Business Development Centers.
- ◆ Comprehensive and sustainable community development, including site preparation and redevelopment and neighborhood revitalization, are high priorities. However, most comprehensive strategies, such as brownfield redevelopment, require substantial public subsidies.

III. 2003 Performance and 2004 ACTION PLAN

The Bank had a very active and exciting year. The Bank committed subsidy under the Affordable Housing Program (AHP), \$4.8 million, and the Homebuyer Equity Fund (HBEF), \$1.3 million. The Bank's Banking On Business (BOB), which was launched in 2000, had an extremely successful year in 2003. By the end of 2003, more than \$13 million in BOB funds were funded to small businesses. The Bank has continually expanded the number of members enrolled in BOB and HBEF by 10 and 6 members, respectfully.

The following summarizes the Bank's performance in 2003 and sets the CLP goals for 2004:

<u>2003 Goals</u>	<u>2003 Performance</u>	<u>2004 Goals</u>
Community Lending Program \$50 million funded.	<ul style="list-style-type: none"> • \$48.3 million funded 	<ul style="list-style-type: none"> • \$20 million specific projects funded.
Letters of Credit \$200 million.	<ul style="list-style-type: none"> • \$309 million <ul style="list-style-type: none"> ✓ \$260 in municipal and large deposits ✓ \$49 million in bond issues 	<ul style="list-style-type: none"> • \$325 million
Community Development Investing \$30 million HFA bonds.	<ul style="list-style-type: none"> • \$208 million in HFA bonds <ul style="list-style-type: none"> ✓ \$191 million ✓ \$17 million 	<ul style="list-style-type: none"> • \$5 million HFA bonds.
Technical assistance to members and CBOs	<ul style="list-style-type: none"> • Conducted a series of AHP workshops throughout the district. 	<ul style="list-style-type: none"> • Continue workshops and technical assistance.
Implement a small business subsidy program	<ul style="list-style-type: none"> • \$3 million funded to small businesses 	<ul style="list-style-type: none"> • \$3 million accrual plus approximately \$1 million in repayments committed to small businesses.
Mission-related product development Implement credit swap product and explore additional product development opportunities.	<ul style="list-style-type: none"> • Advanced several promising product prospects: <ul style="list-style-type: none"> ✓ Deposit Platform ✓ Multi-family/Commercial Lending ✓ Public Deposit Delivery 	<ul style="list-style-type: none"> • Develop and roll-out feasible new product ideas.
Explore capacity-building initiatives <ul style="list-style-type: none"> • Assist with leadership, capacity-building and community-building training. • Continue capacity-building initiatives with the Non-Profit Clinic. • Develop a training curriculum for Comprehensive Neighborhood Development. 	<ul style="list-style-type: none"> • Continued funding and partnership with the WV Affordable Housing Task Force and the University of Pittsburgh's Non Profit Clinic. 	<ul style="list-style-type: none"> • Assist with leadership, capacity-building and community-building training. • Continue capacity-building initiatives with the Non-Profit Clinic and WV Task Force. • Develop a training curriculum for Comprehensive Neighborhood Development.
Expand access of non-member mortgagees and intermediary lenders <ul style="list-style-type: none"> • Bank will provide additional loans to DSHA and make its first loan to the WVHDF. 	<ul style="list-style-type: none"> • \$4 million new loans to DSHA. 	<ul style="list-style-type: none"> • Continue to develop relationship with Housing Finance Agencies.
Establish Bank as a community/economic development leader <ul style="list-style-type: none"> • Sponsor an event in Delaware. • Participate in a system-wide Homeownership event in June in Washington, DC. • Develop a minority/ urban homeownership initiative. 	<ul style="list-style-type: none"> • Participated in system-wide minority homeownership events in April and June. • Initiated pilot minority homeownership programs in Philadelphia and Allegheny County 	<ul style="list-style-type: none"> • Sponsor a Community Investment event in Delaware. • Sponsor a state-wide housing event with PHFA.

2003-2005 Strategic Objectives

The Bank will pursue the following objectives over the next three years:

- ◆ Enhance role as catalyst for community banks.
- ◆ Promote Comprehensive Neighborhood Development.
- ◆ Increase targeting of products and services to the most critical needs as identified in the strategic plan research.
 - Rental housing for families.
 - Housing for persons with special needs.
 - Rehabilitation.
 - Homeownership for minorities and urban areas.
 - Economic development with emphasis on small business.
- ◆ Increase the effectiveness and efficiency of AHP & HBEF especially in underserved areas, including West Virginia.
- ◆ Create new products/services.

IV. ACTION PLAN DESCRIPTIONS

1. **Expand the use of the Bank's existing tools for targeted community lending through the following:**

1(A). Loans

The Bank has created a loan product that incorporates the broader eligibility criteria permitted in the CICA regulation. The loan product, called the Community Lending Program (CLP), is priced at the Bank's cost of funds.

Creative partnerships with federal, state and local economic development funders will be cultivated to produce leverage opportunities. Combining loans with loan guarantees, Banking On Business funds, or creative equity investments from third parties could be incorporated to achieve greater value and impact.

2004 Goal: *The Bank will loan \$20 million in CLP funds to qualified projects.*

1(B). Letters of Credit

The Bank's LOC may be used for a variety of purposes, including to assist members to participate in municipal or state bond issues to fund projects such as hospital expansions, independent living facilities for seniors or other economic development initiatives. All three states in the Bank's district permit LOCs to secure public unit deposits.

2004 Goal: *The Bank will issue \$325 million in LOCs.*

1(C). Community Development Investing

The Community Development Investing tool offers great potential for meaningful housing and community development. The Bank has shown a strong commitment to this area by developing strong relationships with the state housing finance agencies.

- ◆ **Purchase of state and local governmental unit bonds:** State and local governmental units within the district have difficulty meeting the collateral requirements for housing associates. Therefore, in an effort to meet their credit needs, the Bank directly purchases these agencies' debt obligations.

The majority of the Bank's investments have been through the Pennsylvania Housing Finance Agency (PHFA). However, due to the current credit policy limits, the Bank can not purchase any additional PHFA bonds at this time.

Bank investments in Small Business Investment Companies (SBICs), Tax Increment Financing projects or Section 108 bonds, for instance, offer the potential for innovative financing solutions in meeting credit needs. The Bank will continue to explore these opportunities.

2004 Goal: *\$5 million in taxable bond purchases. Increases in tax exempt bond caps and credit policy limits will decrease the volume of taxable bond purchases. The Bank will explore options to resume activity with PHFA.*

1(D). Technical Assistance

- ◆ **Community Support Statement Preparation:** The Community Investment Department (CID) is primarily responsible for working with member financial institutions to complete Community Support Statements. The Bank provides a well-trained group of professionals who are respected by members, community-based organizations (CBOs) and affordable housing developers. The staff meets with members to serve as a resource in completing the statements, as well as providing assistance to these groups on the use of our housing and community investment products. This practice will continue to be provided as a component of the Bank's 2004 Plan.
- ◆ **Liaison Role:** The CID will continue to introduce members to community groups or other sponsors of affordable housing and community development projects. In addition, to serve as an effective liaison with members, the CID and the Government Relations staff continue to forge relationships with organizations and agencies participating in federal, state and local housing programs.

1(E). Banking On Business Program

In 2000, the Bank successfully launched the Banking on Business (BOB) program, which is designed to assist member-financed small business start-ups and expansion. Under BOB, the Bank has accrued over \$13 million from 2000-03. An additional \$3 million will be allocated to BOB in 2004.

2004 Goal: *Continue the BOB program and commit all available funds to eligible small businesses. BOB funds may also be set-aside for a minority homeownership initiative, capacity building and Comprehensive Neighborhood Development.*

2. Create new products and delivery capacities to meet economic development needs.

2(A). New Product Creation

2004 Goal: *The Bank will analyze the feasibility of creating new products to advance the Bank's mission and vision. The Bank's Business Research and Development Department will identify products with the highest probability for success and will proceed with product development.*

2(B). Increase Capacity in Underserved Areas

The Bank will pursue opportunities to enhance the capacity of existing organizations to undertake economic development projects. In some cases, where the structures do not exist, the Bank may serve as the catalyst to create new economic development institutions. For instance, the creation of an SBIC in an underserved area may be an appropriate activity for the Bank. The need for capacity enhancement is especially acute in rural areas.

The Bank recognizes that effective CBOs are a key element in encouraging members to participate in non-traditional partnerships for affordable housing and community development. In studying this issue, Bank staff found that CBOs require additional training in developing business plans, budgets, marketing and technology. The effective use of these tools by CBOs will assist members in understanding the complexities of these organizations, which will enable members to more effectively assist CBOs in improving local communities.

2004 Goal: *As noted under the BOB goal, the Bank may continue to fund a capacity-building initiative in 2004. The Bank will explore capacity building initiatives in partnership with the Non Profit Clinic at the University of Pittsburgh and the West Virginia Housing Task Force.*

2(C). Comprehensive Neighborhood Development (CND)

The Bank has identified CND as one of its strategic goals. The ultimate goal of CND is to create self-sustaining, thriving communities. In places that have strong markets, private demand sustains a community or local economy. Unfortunately, in many places in the Bank's district the conventional markets have broken down or do not exist at all. Strategic interventions are necessary to fill the gaps in the market.

CND seeks to transform distressed communities through an integrated rebuilding approach. It seeks to replace piecemeal approaches with broader efforts to strengthen connections among economic, social and physical needs. CND

strategies attempt to coordinate human, neighborhood and social capital through the guiding principles of comprehensiveness and community building.

A strong neighborhood plan includes a clearly articulated vision, with clearly identifiable goals and a process for implementation. It should see to change not only the physical environment, but also the perception of the community among residents and those outside the community. It is apparent that many places recognize the need to approach neighborhood change in a comprehensive manner. However, all too often, the necessary planning and consensus building either is not done or is inadequate.

2004 Goal: *The Bank will explore options that promote the concept of CND.*

2(D). Expand Access of Intermediary Lenders

For some economic development activities, other organizations may offer the best opportunity to meet credit needs in underserved markets. For example, CDFIs, SBA 504 Corporations or local economic development intermediaries may be appropriate Bank partners for deals that require a higher degree of risk or technical assistance. Incorporating member participation in these partnerships will be explored.

2004 Goal: *Continue to enhance relationships with the Bank's Housing Associates.*

3. Establish the Bank's presence as a community and economic development leader.

The Bank has a unique opportunity to become a leader in community and economic development finance. Our structure as a large wholesale institution, combined with our financial engineering expertise and our strong relationship with a network of approximately 350 financial institutions, are key assets as the Bank enters the community and economic development arena. The Bank's ability to build on these strengths is a strategic advantage.

Unlike the housing finance system, the community and economic development system is much more fragmented. It is important for the Bank to seek opportunities to improve the financing system by expanding our expertise and by forging strategic partnerships with community and economic development stakeholders. As the Bank expands its expertise and presence in community and economic development finance, additional opportunities will become apparent. In light of these findings, the Bank will implement the following initiatives:

3(A). Facilitate the creation of new partnerships with state agencies, member banks, and other bank constituents.

- ◆ **Conference Sponsorship:** The Bank will co-sponsor a conference(s) in conjunction with the Pennsylvania Housing Finance Agency. The Bank will sponsor an event in Delaware.
- ◆ **Targeted Marketing Strategy:** In conjunction with the Bank's Communications Department, the Community Investment Department has developed a targeted marketing and public relations strategy that includes increased contact with community and economic development organizations. The Bank will monitor the effectiveness of the strategy in 2004.
- ◆ **Pillars of the Community Awards:** At regional stockholders' meetings, the Bank honors member financial institutions as partners who have completed exemplary housing or community investment projects. By promoting these awards at the regional meetings, members see firsthand innovative approaches to meeting credit needs within local communities. In addition, the Bank promotes the award recipients via national and local media, as a means to highlight innovative approaches to creating affordable housing and community investment.

3(A). Develop a minority/urban homeownership initiative.

2004 Goal: *The Bank will implement a minority homeownership initiative in Philadelphia and Allegheny County, PA.*

V. ADDITIONAL MARKET OPPORTUNITIES RESEARCH

The 2004 Plan requires the Bank to continue conducting research on credit needs and market opportunities. At the onset of its research phase, the Bank aggressively sought to receive comprehensive feedback regarding the needs of underserved communities and populations. This research was designed to provide the foundation for many of the Bank's future lending plans and community investment programs.

The Bank's commitment to accurately assessing the current and future needs of its District will continue. As a supplement to our current research findings, the Bank will have ongoing dialogue with the many agencies, housing developers and member banking institutions that participate in affordable housing and community investment initiatives. Our goal will be to supplement our current information database with new resources which may better equip the Bank to address the goals of its Plan. Such information is expected to be derived from the many partnerships currently existing between the Bank and its various constituents district-wide.